



products used predominantly by catalogers only serves to drive increasing numbers of catalogs out of the system.

As ACMA has demonstrated to the Commission, catalogs are effective, useful, desired and valued content in the mail that consumers want and need, driving interest in the mail and helping to make mail more interesting and desired for all types of mail-borne messaging.

ACMA has created, updated and filed a unit cost index for flat and other mail since 2009. ACMA has submitted its work sheets, formulas, data sources and methodology with the Commission so that others might evaluate the work and address any shortfalls or errors. With one exception that was subsequently addressed, no party has questioned the ACMA cost index as fallacious. The index adjusts for changes in mix and adjusts to a common datum to make unit cost changes clear. For the past 21 years, inflation as measured by CPI-U, has risen an annual compound amount of 2.2%. In that same period, the reported costs for MM Flats has increased 5.4% per annum, compounded, with MM Carrier Route flat shaped mail increasing 5.6% annually, compounded. As a point of comparison MM letter reported costs have increased 1.4% annually compounded over this same 21-year period.

With reported costs increasing at 2.5 times the rate of inflation for more than two decades, it is unsurprising that this type of mail has become less profitable. When asked why flat costs have risen so quickly for so long, postal officials point to continued volume loss, reducing scale economies, increasing machine set up times as a proportion of running times, all causing fixed costs to be spread over increasingly fewer pieces.

Since 2007, national postal policy has effectively depressed catalog mail volumes despite clear evidence that catalogs work and are effective and desired by consumers and businesses alike. As ACMA has shown, catalog circulation decisions use postage cost as an input to determine how many households or offices can be profitably mailed. As costs increase, the number of catalogs that can be mailed decreases in a higher proportion. ACMA believes, and the Commission has used in the single catalog NSA, that the elasticity of demand is on the order of -1.4 indicating a significantly elastic category. Catalog executives repeatedly exclaim that the increased cost of postage is the single largest factor in decreasing catalog mail volumes industry-wide.

In this rate proceeding, the US Postal Service has increased catalog postage costs 3.5% while inflation is around 1.5%. ACMA expects about a 5% of volume decline with this pattern continuing year after year leading us down the death spiral. Were this stern medicine effective, it might be acceptable, but the prescription to raise rates inordinately does not create an improved cost coverage outcome. With costs increasing an average of 5.5% each year, any price increase less than this amount does not address the situation the Commission cites in its ruling.

The sources of the extraordinary cost growth must be attacked. Fortunately, recent work by the Postal Service and the flats industry working group seems to hold real promise that sources of cost growth can be slowed or reversed. Work continues and can be considered nascent but there are clear indicators that the potential to materially reduce flats handling and processing costs may be possible in 2021 and beyond.

In the meantime, this counterproductive directive, an increase in catalog postage costs at 2% more than the Class average does not solve the problem and will only drive more volume out of the system, putting further pressure on cost coverages.

It is high time for the postal decision-making bureaucracy to rethink its approach to catalog mail. A more productive solution must be considered, one that is not self-defeating and negatively reinforcing.

As more catalogs leave the mail stream, the Postal Service gets farther from its goal of improving cost coverages for flats, catalogers pick up fewer and fewer fixed costs to operate the system, mail gets progressively less interesting to recipients, and in this time of limited shopping options, consumers progressively lose options and convenience.

While ACMA appreciates the well-meaning guidance provided to USPS pricing decisions, the current status quo is a lose-lose for all involved. A fresh approach is required.

Respectfully submitted,

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